

## STATE BUILDING AUTHORITY

A meeting of the State Building Authority (SBA) Board of Trustees was held at the Lewis Cass Building, 320 S. Walnut, Lansing, Michigan 48909 at 2:00 p.m. on Monday, January 28, 2008.

### Board Members Present:

Dawn Batts  
John Clark  
Ehrlich Crain  
Patrick Devlin  
Marty Mercer

### Authority Staff:

Debbie Roberts, Deputy Executive Director  
Debbie Sanchez, Secretary  
Carol Schulz, Financial Specialist  
TeAnn Smith, Financial Analyst

### Others Present:

Rachael Eubanks (R. W. Baird & Co.)

Chairperson Devlin called the meeting to order at 2:05 p.m., with introductions. Marty Mercer attended her first meeting since being appointed and everyone introduced themselves.

The minutes of the October 22, 2007 meeting were reviewed, and Mr. Crain moved that the minutes be accepted as written. Ms. Batts supported the motion, which passed unanimously.

Ms. Roberts reviewed the agenda, which includes a review of the commercial paper program, the 2007 Multi Modal Bonds sold in December, the SBA Audit Report and an overview of the SBA Board Policy and Procedures including the Board of Trustees fiduciary responsibilities.

Ms. Schulz reported that the total commercial paper outstanding at this time is \$127,640,000 for 15 projects. There were two different issuances: the first issued November 20, 2007 for \$76 million with an interest rate of 3.48%; the second issued January 24, 2008 for \$50 million with an interest rate of 2.2%. The maturity date for both is February 21, 2008. Ms. Schulz noted that the six projects the board approved at the last meeting are now included in commercial paper program.

Ms. Eubanks reported on the 2007 Multi Modal Revenue Bond deal which sold in December. A larger restructuring was discussed at the meeting in October, but due to the market problems caused by sub-prime mortgages, only the \$96 million of variable rate bonds were sold. It was a straight forward transaction and a restructuring is still being considered. However, at this time it is still not economically advantageous to move forward with a restructuring.

Ms. Roberts noted that the issuance costs for the 2007-I bond issue were \$707,000, with the costs of printing and trustee remaining the same as they would have been for a larger deal; all others are paid on the size of the deal, so those costs were reduced.

The SBA Audit for the year ending September 30, 2007 was distributed and Ms. Roberts noted there were no findings in this audit. The small finding from the prior year involving DMB's Design and Construction Division was corrected. The question was asked who performs the audit, and Ms. Roberts noted that the Auditor General chooses to hire out the audit (approximate cost \$20,000). An oversight fee goes to the Auditor General's Office. Ms. Batts asked if new audit requirements will affect SBA. Ms. Roberts indicated the way the variable rate debt is reported will be in accordance with GASB 38 as of September 30, 2008, the close of the fiscal year.

Ms. Roberts reported that an IRS audit is being performed on the 2003-II bond issue. The auditor was in Lansing the week of January 14 and toured a University of Michigan project. His questions were mainly focused on private usage of the facility. Miller Canfield was hired to assist the Authority with this audit and has been working with the auditor. At this point there are no concerns on the part of the IRS auditor. Mr. Clark asked if the audit dealt with the tax treatment of the bonds and Ms. Roberts indicated yes and that is why the private use comes into play. At closing, bond counsel provides us with an opinion on the tax-exempt status of the bonds, but as Mr. Lambert pointed out, this opinion is only for the closing date. That is why the IRS is reviewing this issue to ensure that the tax status is maintained. Mr. Clark asked what would be considered private use and Ms. Roberts explained private use is about the 5% de minimus amount.

Mr. Clark also asked about the fiduciary responsibilities of the Board and consultants. The AG letter fulfilled the board requirements and Mr. Lambert noted that state employees are protected but he was unaware of anything speaking to consultants. Ms. Roberts noted that there could be malpractice or negligence against attorneys or financial advisor.

Each member received a SBA Board Policy and Procedures book. Ms. Sanchez reviewed the SBA Meeting Procedures section.

Ms. Schulz discussed the Open Meetings Act and pointed out the sections dealing with meetings being open to the public, in a public facility, notice requirements and the section regarding closed sessions. It was asked if the minutes are posted on the web and Ms. Roberts indicated we would post them in the future once they are approved by the Board.

Ms. Smith explained the section which describes SBA documents and Ms. Roberts noted that in the future, summaries will be used when we mail out packets with explanation about specific projects. Mr. Crain stated it will help to know the who, what, when and where of a project. Ms. Roberts indicated we will still provide the documents for the trustees review.

Ms. Smith talked about the section regarding professionals.

Ms. Roberts reviewed SBA responsibilities. Mr. Clark asked is SBA is truly “autonomous” and Ms. Roberts and Mr. Lambert will check on that. Ms. Roberts noted that the SBA is the only Authority not housed in Department of Treasury. Mr. Clark asked if there is any recovery of costs of operation of the authority. Ms. Roberts indicated we operate with restricted funds – funded through bond deals for operation of the Authority. There was additional discussion regarding funding, employee layoffs, etc.

The next item discussed was the Request for Proposal (RFP) process. Ms. Roberts indicated that in the past, the chairperson participated in the process. There is concern over the fact that the trustees have a duty to perform, but have no say in selecting bond counsel or underwriters. Mr. Crain asked how the process currently works. Ms. Robert noted that SBA sends out the RFP, using the same process as the DMB Purchasing Operations. This is typically a yearly process, and usually RFP’s are sent out in January. For underwriters, we contact New York firms in the Red Book, and any other underwriter who has asked to be included. Mr. Lambert stated that for the bond counsel, there are certain requirements that need to be met by counsel to be included in the Red Book – amount of business done and maintained at a certain level. Ms. Roberts further explained that all RFP’s are sent by email with a deadline. We ask that multiple copies of the RFP’s be sent to the SBA and financial advisor. Debbie, Carol, TeAnn, Wayne and Rachel review all of the RFP’s received to determine that they meet the criteria and that the numbers were run correctly. Once that is completed, the five of them meet to create a short list and then interviews are held.

Mr. Clark asked if the State Administrative Board approves the selection of the bond counsel and underwriter and Ms. Roberts explained no. The By-laws provide the Executive Director with the ability to hire outside professionals.

Ms. Batts asked about contracting with the financial advisor. Mr. Roberts indicated it is a three year contract with two 1-year extensions. We hire the financial advisor in conjunction with Treasury.

Ms. Batts asked to have the RFP process and By-laws added as items to the next agenda.

Next discussion was regarding the Disclosure Statement and Ms. Roberts stated that the SBA staff sign disclosures yearly. Mr. Devlin asked that all Board members be added to this yearly disclosure procedure. SBA will prepare a document for trustees to sign yearly.

Ms. Roberts noted that the next meeting will be held April 28, 2008 in the Detroit area. We will try to hold the meeting at a college.

Ms. Roberts also mentioned that the Governor's Administration is suggesting using all but \$50 million of the SBA bond cap for a new capital outlay bill.

The question was asked about the SBA assisting with Cobo Hall and Ms. Roberts explained that the Authority needs to take title to a facility for financing. Mr. Crain asked that if Cobo Hall were part of a group it still wouldn't meet the criteria for an SBA project? Ms. Roberts indicated that is correct – SBA needs to take clean title. She also mentioned that when Cobo was looked at a few years ago, the Port Authority and Michigan Strategic Fund were suggested.

Ms. Roberts mentioned that the large refunding deal worked one day last week, but the insurer increased their rates to eight times the original fee. That sunk the deal, but the market fluctuated the next day anyway. If the market changes and a refunding deal works, we may need to hold a special meeting.

Ms. Mercer moved to adjourn the meeting and it was seconded by Mr. Crain. All were in favor and the meeting adjourned at 3:35 p.m.

APPROVED AND ADOPTED:

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Deborah M. Roberts, Executive Director

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Patrick J. Devlin, Vice-Chairperson